

Fraternal beneficiary society; subordinate organization formed by local lodge. A nonprofit, subordinate organization, formed and chartered by a local lodge of a fraternal beneficiary society exempt from tax under section 501(c)(10) of the Code to carry on the fraternal and charitable activities of the society in a particular geographical area, is also exempt under section 501(c)(10).

Advice has been requested whether the nonprofit organization described below qualifies for exemption from Federal income tax under section 501(c)(10) of the Internal Revenue Code of 1954.

The organization was formed by a local lodge of a fraternal beneficiary society to carry on the activities of the society in a particular geographical area. The parent society and its local lodges are exempt from Federal income tax under section 501(c)(10) of the Code. The parent society authorized the local lodges to create subordinate organization to carry its fraternal and charitable activities into additional geographical areas in order to facilitate the growth of the society and to increase participation in its activities.

The organization operates under a charter from the lodge. Although it is under the general supervision and control of the lodge, and its members must adhere to the bylaws, rules, and regulations of the lodge and the laws and edicts of the parent fraternal society, the organization elects its own officers and manages its own activities. Any member of the fraternal society is eligible for membership in the organization.

The organization conducts the fraternal and charitable activities of the fraternal society in the particular geographical area. It conducts events where members meet and fraternize. It raises funds for, and otherwise supports, the charities sponsored by the fraternal society, and serves as a vehicle for the recruitment of new members for the society. The organization does not provide for the payment of life, sick, accident, or other benefits to its members.

The organization's income is from dues, assessments, and admission fees to its events. Its disbursements are for its fraternal activities and charitable programs and its net earnings are devoted exclusively to those purposes.

Section 501(c)(10) of the Code provides for the exemption from Federal income tax of domestic fraternal societies, orders, or associations operating under the lodge system, the net earnings of which are devoted exclusively to religious, charitable, scientific, literary, educational, and fraternal purposes and which do not provide for the payment of life, sick, accident, or other benefits.

Section 1.501(c)(10)-1 of the Income Tax Regulations provides that an organization will qualify for exemption under section 501(c)(10) if it is a domestic fraternal beneficiary society, order, or association, described in section 501(c)(8) and the regulations thereunder, except that it does not provide for the payment of life, sick, accident, or other benefits to its members and devotes its net earnings exclusively to religious, charitable, scientific, literary, educational, and fraternal purposes.

Section 1.501(c)(8)-1 of the regulations provides that a fraternal beneficiary society is exempt from tax only if operated under the 'lodge system' or for the exclusive benefit of the members so operating. 'Operating under the lodge system' means carrying on its activities under a form of organization that comprises local branches, chartered by a parent organization and largely self-governing, called lodges, chapters, or the like.

By carrying on the fraternal and charitable activities of the fraternal society, the organization is operating as a fraternal society. In addition, since it was formed and chartered by the local lodge, and operates under the general control and supervision of that lodge, and subject to the laws and edicts of the parent society, it functions as part of the lodge system of the fraternal society. Accordingly, the organization is a fraternal society operating under the lodge system, and since its net earnings are devoted exclusively to charitable and fraternal purposes and it does not provide for the payment of life, sick, accident, or other benefits to its members, it is exempt from Federal income tax under section 501(c)(10) of the Code.

Even though an organization considers itself within the scope of this Revenue Ruling, it must file an application on Form 1024, Exemption Application, in order to be recognized by the Service as exempt under section 501(c)(10) of the Code. The application should be filed with the District Director of Internal Revenue for the district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the regulations.